ANNUAL REPORT 2012

BOTSWANA DIAMONDS PLC

Libongo Conglomerate - Cameroon

BOTSWANA
DIAMONDS PLC

Front Cover: Kalahari desert

Contents

Chairman's Statement

Mining lore has it that the best place to find a mine is where there is or was a mine. In diamonds, the best place is Botswana, the world's biggest producer by value. For years the principals in Botswana Diamonds (BOD) have explored Botswana. They were successful with the discovery of what is now the Karowe mine, which opened in 2012. BOD is the successor company to that which discovered Karowe - African Diamonds. We have good ground, a large data base and a strong and experienced team.

On top of this we also have a unique advantage in that a diamond multinational is applying their proprietary technology to our data to identify what they believe will be previously unknown, large diamond-bearing kimberlites – the source of all Botswana's diamonds. Following a year's successful technical co-operation a total of thirteen sites have been identified in the Orapa area of northeast Botswana. Ground has been applied for and plans made to survey and drill the targets. An exciting year lies ahead.

Before discussing the exploration projects being undertaken by the company let me look at the fundamentals of the diamond industry. In a sentence, diamonds are scarce, yet women all over the world want them. A detailed Bain report predicts annual growth in demand of 6.0%. They analysed all sources and concluded that supply would be flat. It takes years from diamond discovery to first production so the only way to match demand to supply in the near future is through increased prices. Wild price swings in recent years do not help accurate forecasting. These swings reflect availability of cheap credit driving up prices and credit clampdowns leading to sell offs causing sharp price falls. But the fundamentals appear sound.

What is in a state of flux is the structure of the industry. The diamond industry was one of the world's great monopolies. For almost a century De Beers exercised control of supply and prices. In the last two decades the monopoly first cracked then broke. Big companies such as BHP Billiton and Rio Tinto entered the industry. They either bought into or discovered new mines. Also, Alrosa, the Russian state diamond company, long excluded from selling directly to world markets, gradually took control of their domestic marketing. Alrosa now outperforms De Beers in terms of diamond output in carats - 40% of the world's diamonds from seventeen mines. Junior exploration companies appeared but many are struggling. De Beers itself has now been re-absorbed back into Anglo American. Recently, BHP and Rio Tinto decided to exit the industry after failing to reach the scale demanded by their respective boards. What is sure is that more change is coming.

Turning now to operations, Botswana is the focus. This is a very exciting time for us in Botswana.

- We will drill our 100% owned licence PL170/2012 in early 2013. The indicators are good.

- Our year-long data analysis with our multinational colleagues has identified thirteen targets in the Orapa area. Of these, six are high priority. We have a joint budget of $1 million for 2013 to explore and to drill up to forty holes.

- The good results from the Orapa analysis have led us to extend the Technical Cooperation Agreement with the multinational to mid-2014 so that the southern part of Botswana can also be analysed.

In April we were awarded PL170/2012 - a very prospective 249 sq km licence about 30 km from the world class Letlhakane diamond mine. Geology indicates that this part of Botswana should be very prospective for diamonds but sand and basalt cover meant that there was relatively little serious exploration unlike the two adjacent licences where excellent indicators were found. Incidentally, so impressed are we with the results to date from PL170 that we have applied for the adjacent ground which is now available.

An intensive programme of evaluating all historical data on PL170 was followed by ground gravity and ground magnetic surveys combined with soil sampling which found G-9 and a few G-10 garnets. Twelve anomalies were whittled down to five of which three have been prioritised for drilling in early 2013. Of particular interest is BOD7, a fifteen hectare anomaly with good signatures.

The work being done with the diamond multinational is focussed and producing very specific results. This company, as yet unnamed, has applied their specific, proven technology to a large data base compiled by Botswana Diamonds personnel. The objective is to identify sites which may contain diamond-bearing kimberlites. The work outlined thirteen targets in the Orapa region. We have agreed a budget to explore and drill these targets. The budget allows for forty drill holes. We need to secure the ground and to negotiate the details of the joint venture. It is important to note that these sites are thought to contain previously undiscovered kimberlites which may contain diamonds.

The success of the first year of analysis led the partners to extend their Technical Cooperation Agreement until mid-2014 so that the south part of Botswana can be evaluated. This means we are running two separate programmes with our colleagues.

Our second area of operations is in Cameroon where the search is for paleoplacer diamonds. Diamonds in paleoplacer conglomerates is a new concept only slowly gaining credence in the exploration industry. A Korean company, CNK, has found diamonds in such rock in Mobilong in Eastern Cameroon – a very remote rainforest up to seven days drive in wet weather from the capital Yaounde. But you must go where the diamonds are.

Botswana Diamonds applied for ground adjacent to the Mobilong diamond discovery. Libongo is an 8,000 sq km block of rainforest. Preliminary prospecting found paleoplacer rock. A follow up sampling programme in 2012 was designed to discover if the rock contains diamonds. It does. The next stage is a ground sampling exercise to discover the spread of diamonds followed by drilling. But, the sampling programme recently completed also identified the difficulties of operating in such remote areas. Over the past year discussions have taken place with CNK on how we might cooperate. Ideas range from shared logistics to equity involvement. In the coming months Botswana Diamonds will work with CNK and with expert consultants to see how best we can work together.

Zimbabwe, our remaining theatre of activity, remains problematic. It is believed that the Marange paleoplacer deposit is producing 12 million carats a year of diamonds worth $40 a carat. We had an interest in developing Block J in Marange. The ground was given to a Chinese/Zimbabwean group. We had an agreement with locals to develop and mine in the Chimanimani area where we discovered diamonds in paleoplacers in 2010. After tortuous negotiations a licence was obtained but the cash demands of locals made the project non-viable.

Finance

Botswana Diamonds raised £1.51m in March 2012. This money will fund all proposed exploration until end 2013. In common with other AIM listed companies we believe that our share price does not reflect the value in the company. Many investors in Botswana Diamonds got their shares for nothing as part of the Lucara deal to buy African Diamonds. Arbitrageurs bought into African Diamonds as a proxy for Lucara, which is quoted in Toronto. They ended up with unwanted Botswana Diamonds shares. At various times over the short two year life of Botswana Diamonds blocks of shares have hit the market driving down the price. We hope and believe that these loose holders have now all sold.

The Future

Drilling and more drilling. The target in 2013 is one or more diamondiferous kimberlites. More mines will be discovered in Botswana. We have data and the best available technology to outline targets.

The drilling will tell the truth. We are optimistic.

John Teeling
Chairman

John J Teeling

18 December 2012

Overview and Market

DIAMOND MARKET – INDUSTRY STRUCTURE

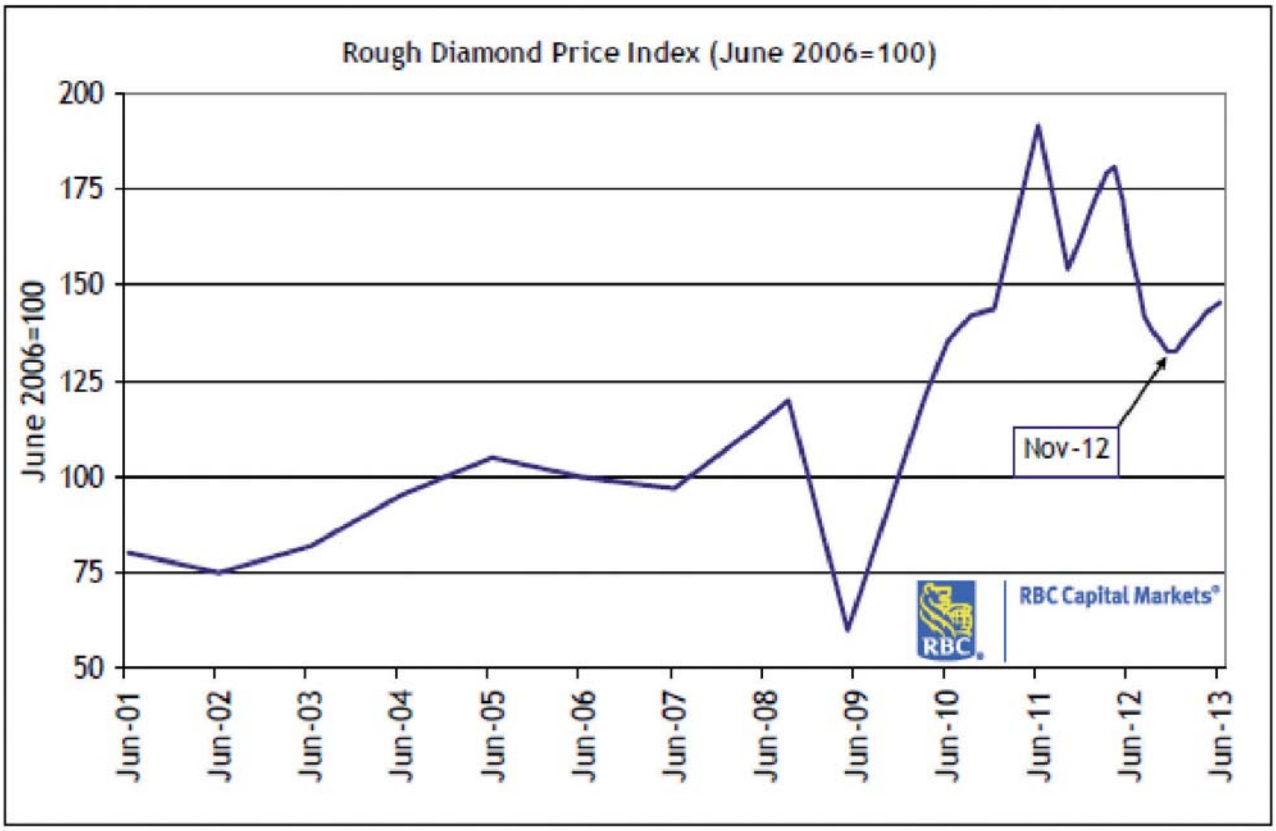
2012 has been a year of momentous structural change for the diamond industry.

- The Oppenheimer family completed the sale of their 40% share of De Beers to Anglo American, ending a legacy of four generations of family ownership of the world's most prominent diamond company
- Anglo American cemented its ownership of De Beers at an 85% share, whilst leadership changes at the top of Anglo American are underway
- De Beers' sales division, DTC, continued its move from London to Botswana as local beneficiation gathered pace
- Alrosa reinforced its position as global leader in production terms, expecting to produce 7mcts more than De Beers in 2012, and achieve $4.5bn of sales in 2012 ($3.9bn in 2011)
- The recently discovered Marange deposit in Zimbabwe produced an estimated 12mcts of rough diamonds in 2012
- BHP Billiton agreed to sell its Ekati mine to Harry Winston for $500m and Rio Tinto attempts to sell its diamond division, together accounting for 15% of global rough diamond supply
- Gem Diamonds sold its Ellendale mine in Australia to Goodrich Resources
- Strategic upstream investments by downstream players, such as Tiffany, have increased as long-term supply concerns drive new approaches to mine development financing

DIAMOND MARKET - 2012

Against this backdrop the global diamond market has continued to operate during the second half of 2012 in precarious fashion. Although diamond prices remain, in relative terms, at historically high levels, 2012 has been without doubt a difficult trading period for diamond players.

Exhibit 1: Diamond Prices



Unlike in 2011, when prices rose dramatically by up to 50% between January and August, followed by a sharp drop in September, the prices of rough diamonds have struggled throughout 2012.

The diamond market has not been able to repeat 2011's strong early performance due to a combination of leading factors:

- declining marginal demand coming from the key emerging consumer markets of China and India
- the impact of the weak US economy and the financial crisis in the Euro zone
- the devaluation of the Indian rupee
- the pricing policy of the main producers, DTC and Alrosa, remaining firm despite tightening liquidity and margins for their clients

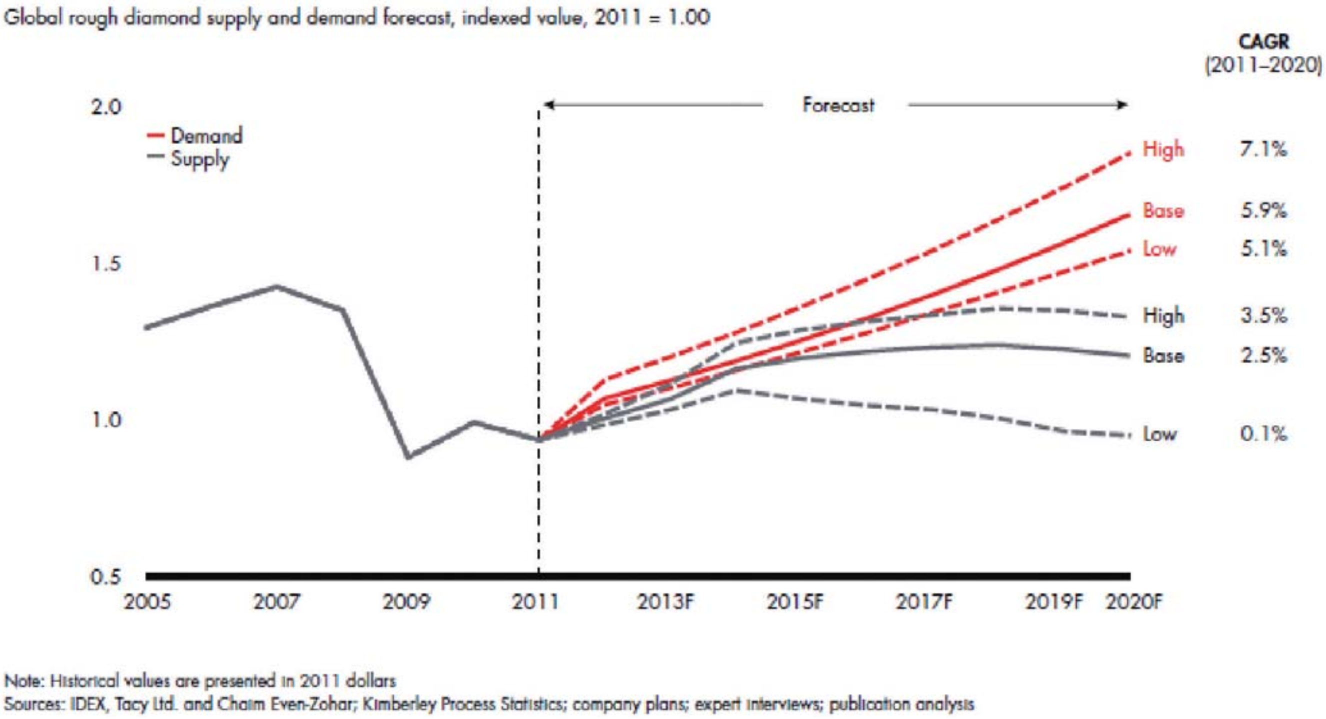
As we reached the summer months, the market was struggling to retain profitability; clients began rejecting their rough diamond allocations (a sure sign of a lack of trading or manufacturing profitability), prices achieved in tender sales were beginning to slide and eventually something had to give.

Both De Beers and Alrosa dropped prices by a few per cent in June; but this was not considered enough as it did not provide any "oxygen" to the market. In July De Beers took the rare step of allowing its customers to defer up to 50% of their allocations until up to March 2013 whilst further reducing prices by 2-3%. Alrosa held its prices but allowed its clients to defer up to 30% of their July purchases. Clearly both main producers did not want to lower prices too much and attempted to use the volume lever to calm the market.

However by the end of August both were forced to drop prices by a further 8-10% and lower the physical volumes they put into the market. Since September, prices have remained relatively stable; De Beers even put out a message that it was not going to reduce prices further and that production

Significant and growing supply deficit drives stronger prices

Exhibit 2: Demand supply imbalance is expected to widen



BAIN Report – The Global Diamond Industry "Portrait of Growth", December 2012 shortfalls in H2 2012 would become apparent later in the year. However a large DTC October sale of an estimated $700-750m further choked a trade struggling to recover.

Some of the medium–sized producers such as Gem Diamonds and Petra reported revenue/rough price decreases, but these were in line with the overall market.

It was not all doom and gloom though – diamonds were being sold continuously into the trade, some juniors such as Namakwa were performing well with their tender sales, BHP and Lucara's prices recovered in H2.

Alrosa also took advantage in H2 of its ability to sell rough to the Gohkran in Russia and maintain sales levels whilst not putting undue pressure on the international markets.

A key difference between previous times and the current diamond market is that De Beers no longer dominates the rough market and therefore no longer has the ability to control global supply pricing. Importantly Alrosa plans to increase its production to 40m cts p.a. within 5 -7 years. There are now several important players in the market and this new competitive dynamic with differing distribution models creates a naturally more volatile trading environment.

As we end 2012, rough diamond prices are considered to be in the range of -18 to -25% year-on-year, depending on which diamond producer one considers. Prices have stabilised and the year is expected to end on a reasonably positive note after an admittedly tough year.

The banks, who finance the trade, continue to monitor carefully the levels of trade debt and their clients' financial health. All eyes are now on how the US Christmas season performs, followed by Chinese New Year in February 2013.

Polished prices have edged both upwards and downwards over 2012, but resulted in an overall negative performance to date; polished price indices now stand at -11% since January and -13% year-on-year.

The important trade fairs of Hong Kong and JCK (Las Vegas) highlighted the weakness in the wholesale market as polished buyers attempted to pull polished prices down with limited success.

As the year draws to a close, the polished trade is still battling with buyers seeking to negotiate prices downwards, a reluctance to buy polished for stock and hold inventory and a general wariness about consumer demand.

However there is strong hope that the key US market will perform well over the holiday season, despite the recent hurricane, and that the new leadership in China will boost both consumer confidence and domestic consumption.

DIAMOND MARKET - GOING FORWARD

There are mixed views amongst industry commentators regarding 2013 price growth; but all views are robust and positive for the longer term.

Botswana Diamonds expects there to be more positive sentiment in the rough diamond market in early 2013 followed by a relatively steady price performance for the rest of the year, with a further lift before the key season in H2. This is predicated on relatively stable distribution behaviour by the two key producers, De Beers (no.1 by value) and Alrosa (no.1 by volume).

The key drivers here are the reduced volume of rough available from De Beers in the short-term, as their maintenance, waste stripping and safety improvement programmes conclude (production at 27mcts in 2012) and a stabilising global economy.

Longer-term, the fundamentals of the diamond market remain healthily robust. The price trend is certainly expected to be upwards driven by limited supply going forward, few new mines coming on-stream and continued growing demand from the emerging markets.

The report published by Bain & Co in 2012 estimated that rough diamond demand would increase by 6.0% per annum until 2020, doubling the size of the industry. 2012 has not played out this way, but the anticipated price growth will come as the global economy recovers.

Global rough production for 2011 was estimated at 124mcts (value $15bn), and this figure is predicted to remain relatively stable in the coming years, growing to 157mcts by 2020.

Merrill Lynch recently stated its positive view on the long-term fundamentals of the industry, citing diamonds as a "secular, late development commodity" with significant growth potential due to the low per capita consumption at present in the emerging markets and the expected supply-demand deficit in the medium-long term.

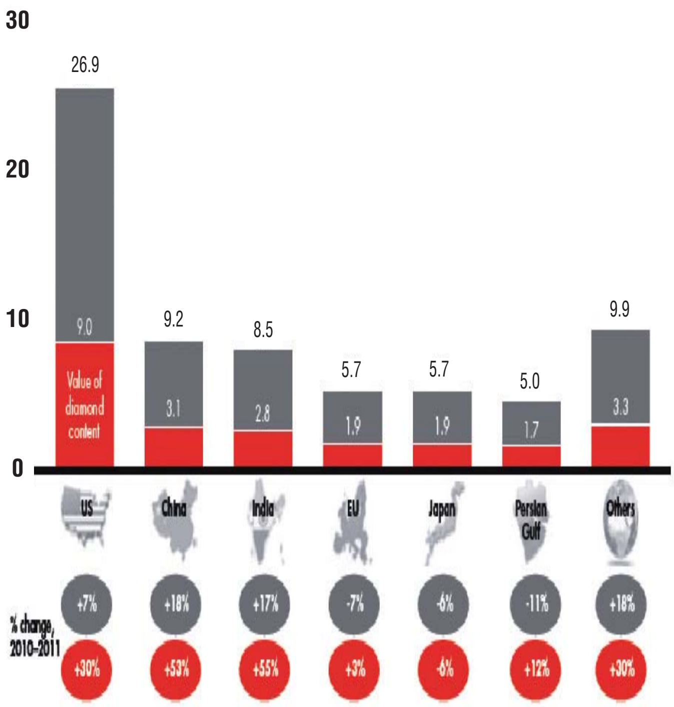
DIAMOND JEWELLERY DEMAND – KEY MARKETS

The US remains the world's biggest consumer market for diamond jewellery at around 40% of global sales by value.

Japan remains resiliently at around 10% despite last March's environmental catastrophe.

The emerging markets, led by China and India, continue to grow strongly, despite a slowdown in the levels of growth in 2012. Bain estimates Chinese diamond jewellery demand to have grown between 2005 and 2011 at 32% CAGR; and India at 22% CAGR. Chinese consumption for diamond jewellery is still predicted to grow by 10% in 2012, and India at a similar level. Indeed these 2 markets combined are anticipated to exceed the size of the US market by 2020. The predicted continued surge in global demand for diamond jewellery will struggle to be matched by supply of diamonds.

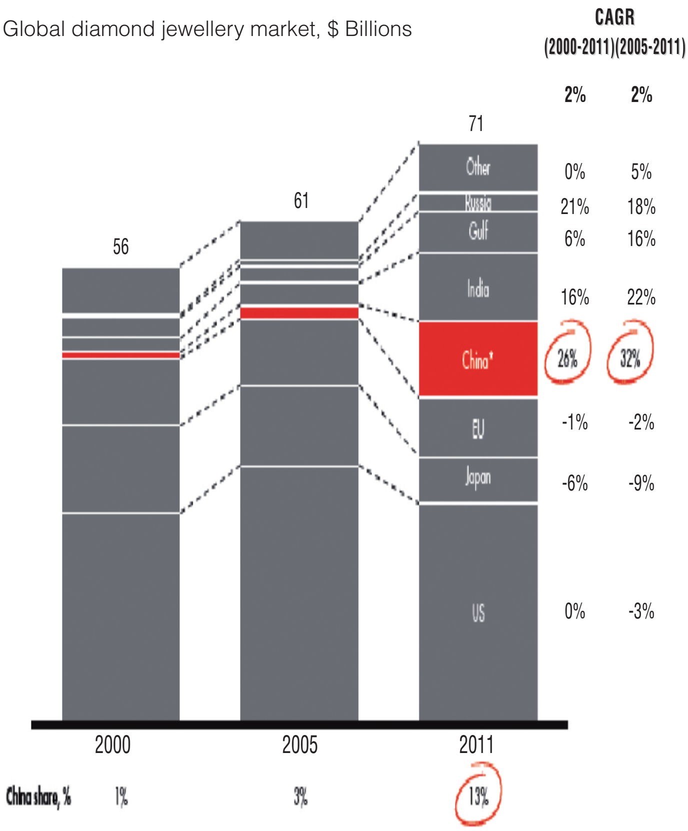
Diamond jewellery retail sales, $ billions, 2011 Total = 71 billion



Note: China includes Hong Kong; "Others" include the remaining geographies
Sources: IDEX; Tacy Ltd. and Chain Even-Zohar

BAIN Report – The Global Diamond Industry "Portrait of Growth", December 2012

Global diamond jewellery market, $ Billions



*Including Hong Kong
Sources; 'Jewellery Retail Chains 2012' (RBC Research); IDEX; Tacy Ltd. and Chalm Even-Zohar; publication analysis

Exhibit 3: Diamond Jewellery Market

BOTSWANA OPERATIONS

Botswana remains the best address in diamonds – in the world. The diamond industry has transformed Botswana into a middle-income nation and one of the most dynamic economies in Africa. Diamond mining has fuelled much of its economic expansion and currently accounts for 70-80% of export earnings. The Botswana Diamonds Management team has extensive knowledge of the country having previously established African Diamonds, which discovered the AK6 mine, Karowe, in Orapa, Botswana. The project was sold to Lucara in December 2010 and this year started production.

JOINT OPERATIONS IN NORTHEAST BOTSWANA

In early 2012, a technical cooperation agreement was signed between Botswana Diamonds and one of the world's leading diamond producers. The objective of this 18 month agreement was simple – to identify previously unknown large diamondiferous kimberlites in Botswana.

Our partner believes, along with other industry sources that further diamond deposits remain to be discovered in Botswana. The country is mainly covered by Kalahari sand and basalt. This makes exploration difficult. Our partner has developed a technology which they believe can see through the sand and basalt to identify what lies underneath. Further, by using geochemical soil sample results, they believe that they can identify kimberlites likely to contain diamonds. The technology requires significant geophysical and geochemical data which is then analysed by sophisticated computer programmes. The net result of this work is a set of targets.

The first phase of analysis focused on northeast Botswana, an area containing many known kimberlites and four producing mines – the Orapa area, one of the world's great diamond districts.

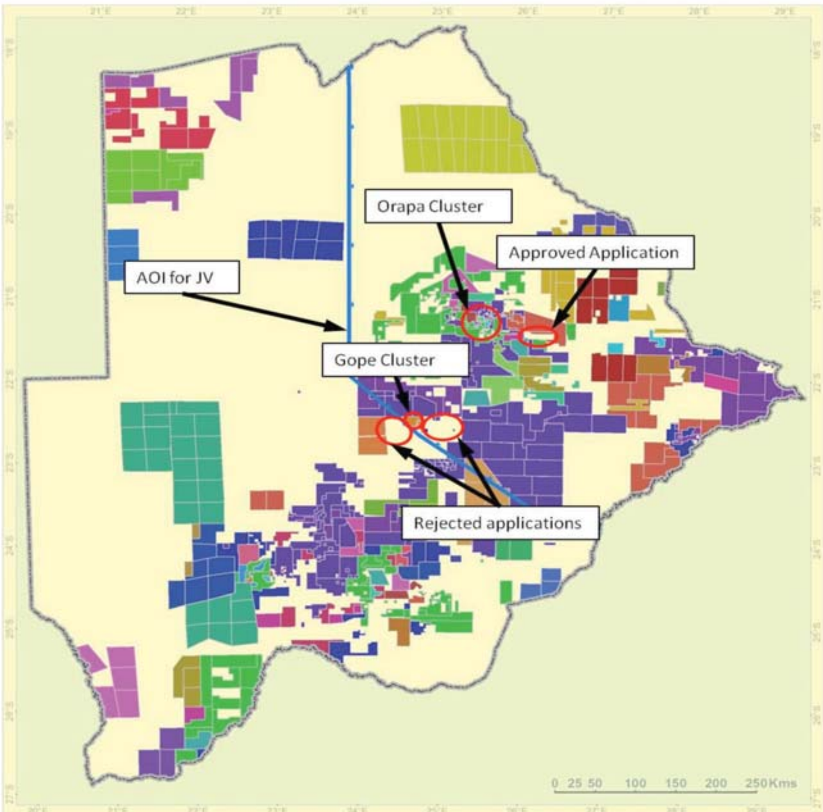


Exhibit 4: Licenced Areas in Botswana

For nine months a team of geologists employed by Botswana Diamonds collected all available data which was shipped to the diamond company. First results were known in September and the full analysis was presented in mid-November. The results are significant. Thirteen areas of unexplained kimberlite indicator minerals and geophysical anomalies have been identified. The targeted areas are small ranging from 3 to 50 sq km. This enables focussed low cost advanced stage exploration which will involve further ground gravity and magnetic surveys together with additional soil sampling followed by drilling where indicated. A 2013 budget of one million dollars covering the above work, including forty drill holes, has been agreed.

Prospecting licences covering the targets have been applied for.

The success of the work in identifying what may be large kimberlites with diamonds has led the two partners to extend their Technical Cooperation Agreement until mid-2014 so that a search and analyse exercise can be carried out in the southern part of Botswana.

It is proposed to transfer the Technical Cooperation Agreement into a full joint venture. Details of the agreement will be announced in early 2013. Currently, Atlas Minerals, our wholly owned subsidiary holds the licence applications.

EXPLORATION WORK ON PL170/2012

Exploration work was carried out on Prospecting License PL170/2012 which covers 249.4 sq km and is held 100% by Atlas Minerals. The licence was issued in May 2012 and has been awarded for a period of three years. The Prospecting License is in the Orapa area of Botswana and lies 30km to the east of Debswana's Letlhakane Mine, which produces one million carats a year of high quality diamonds.

The area is covered by unconsolidated Kalahari Group sediments comprising windblown sands, fluvial and Lacustrine deposits and calcrete and silcrete. Below the Kalahari sands lies the basalt which is in turn underlain by the sandstones and mudstones of the Lebung and Beaufort Group sediments. Previous work indicates that the basalt is thinning out from Orapa to the project area. In the Orapa area the basalt is known to attain a thickness of up to 120m whilst in the Orapa East area the deepest basalt intersection is 55m.

The first phase of work conducted on the Prospecting License PL170/2012 included studying the high resolution aeromagnetic data, ground geophysics and mineral chemistry data from previous surveys. The mineral chemistry data from soil samples collected on the licence was also reviewed together with aeromagnetic data. The data showed areas with concentrations of diamond indicator minerals namely garnets, ilmenites with a few spinels and chromites. The garnets fall mainly within the G9 group with minor G10 garnets. These results were encouraging and one of the anomalies (BOD7) had relatively high grain counts around it together with spinels though the chrome diopsides were missing. These indicator anomalies are not likely explained by the presence of adjacent kimberlites.

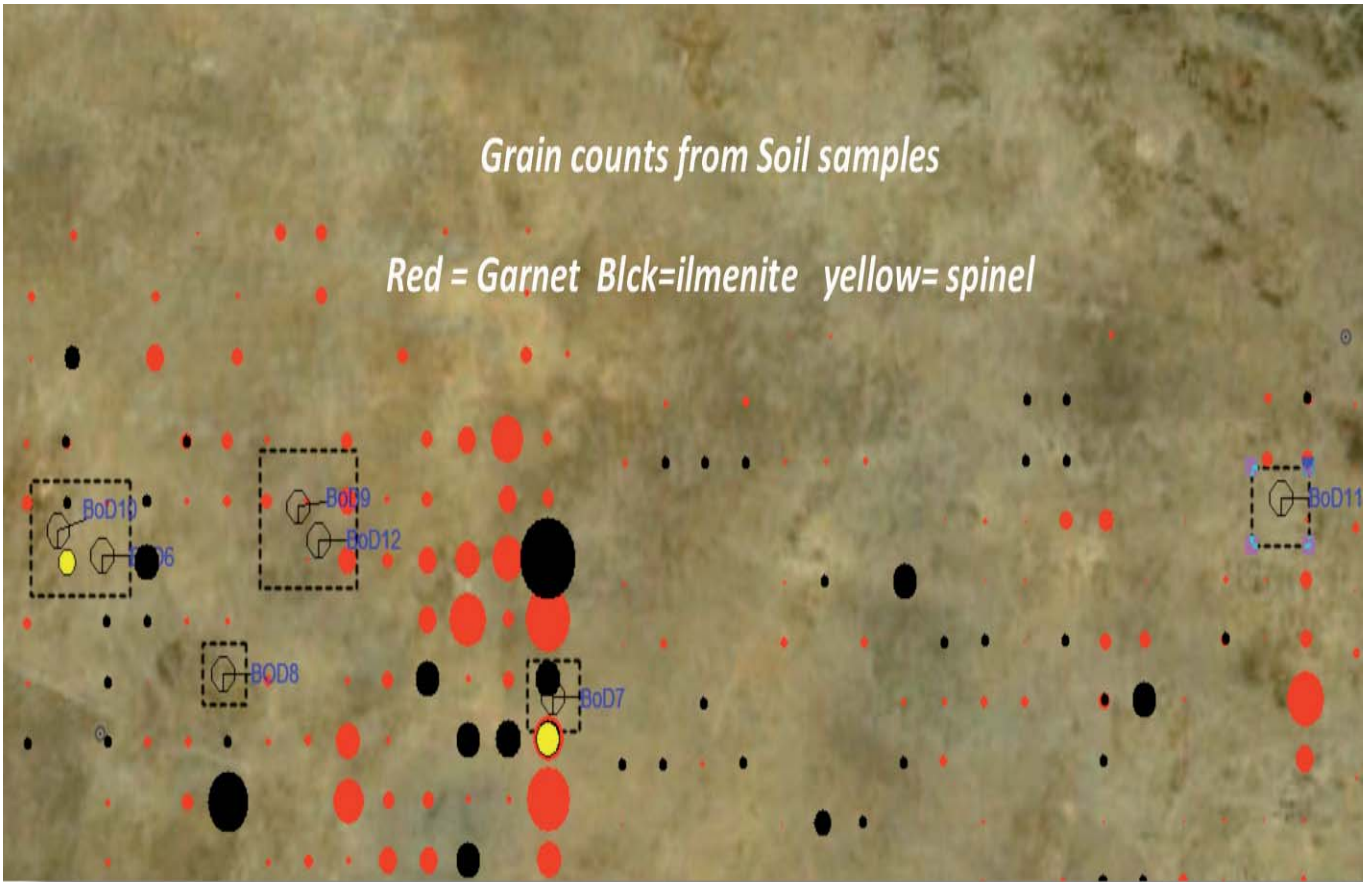
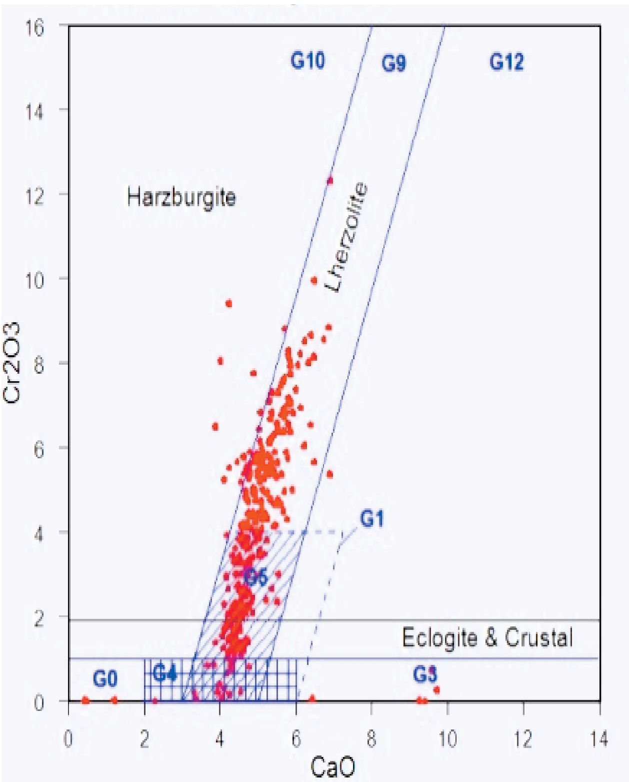


Exhibit 5: PL170 Soil Sample Results



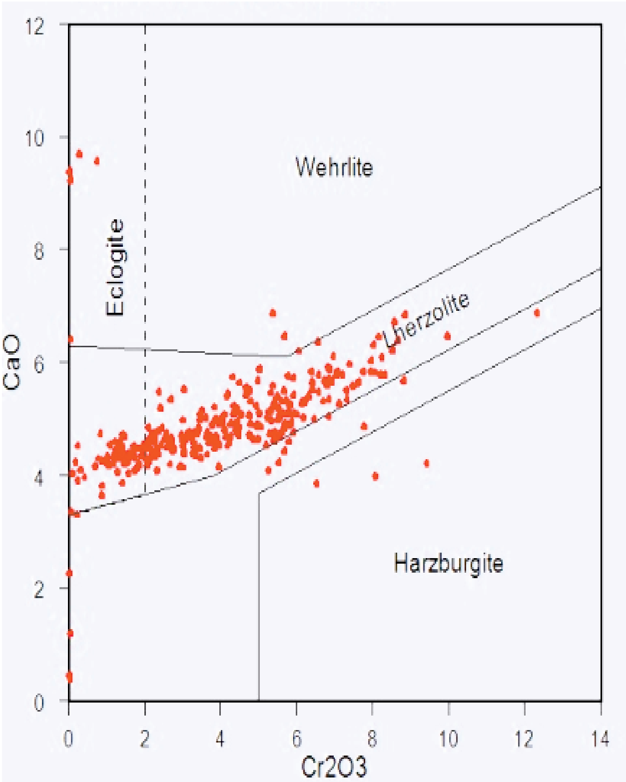


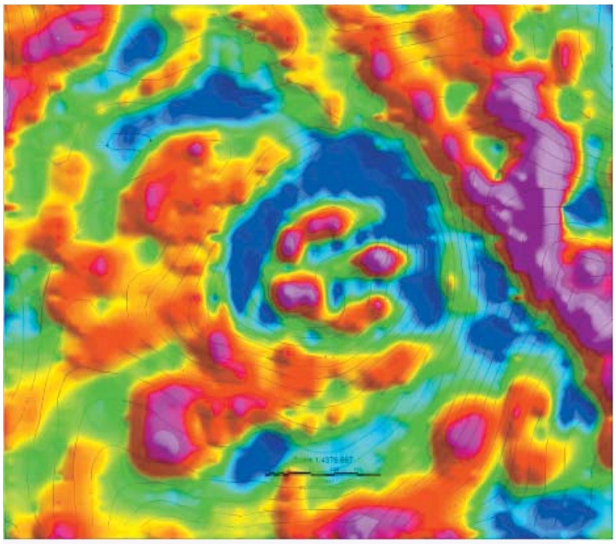
Exhibit 6: Ground Results from PL170 Soil Samples

On completion of the aeromagnetic and mineral chemistry review, several targets were identified and followed up with detailed ground magnetic and gravity surveys in October and November.

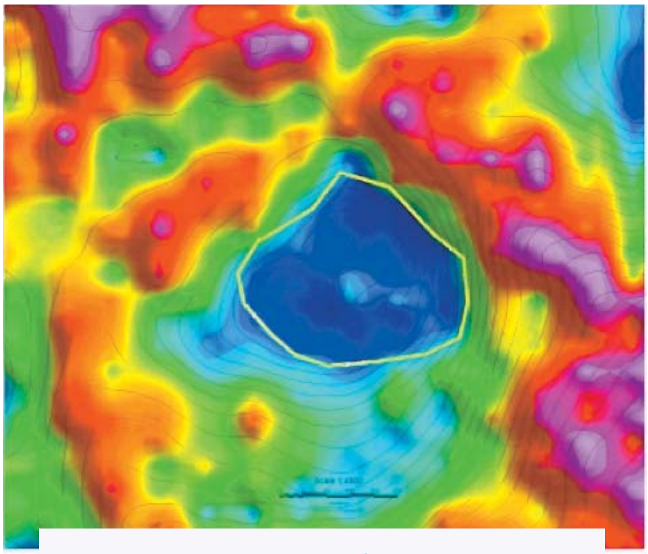
The geophysics team conducted detailed ground magnetic and gravity surveys on five blocks. These blocks covered a total of seven targets in the prospecting licence area. In this geophysics programme, a total of 156 line kilometres of ground magnetics was done and 1721 Gravity stations. Results from this work have been modelled and drilling programme will commence early in the New Year.

BOD10 target is an elongate magnetic anomaly with the long axis on the NE-SW trend. From magnetic data, it is a 230nT anomaly and the estimated size is three ha. There is a displaced gravity anomaly (from the magnetic one) of less than 0.1nGal which is completely missed by the drill hole. If this anomaly source is not proven by the existing drill hole, it should be a medium to high priority anomaly to drill.

The BOD12 anomaly is a magnetic high that was confirmed by the ground magnetic survey to be a curved high beside a prominent negative magnetic dipole to the southwest. The latter is interpreted to be due to the thinning of the basalt, weathering or its absence. The gravity vertical derivative and residual anomaly analysis confirm both anomaly. However the gravity anomaly over the magnetic target of interest is very small (less than 0.1mGal). The magnetic dipole low in the SW of the target also has a gravity low (0.09mGal). It looks more like an anomaly from the negatively magnetised pipe. The magnetic vertical derivative does not have a small high in the middle, typical of anomalies, due to disc-like source holes in the basalt. This makes it an interesting target for further investigation.



BOD7 Magnetic VD



BOD7 Gravity VD

Exhibit 7: PL170 Ground Magnetic and gravity surveys

Three anomalies BOD7, BOD10 and BOD12 will be drill tested. The BOD7 anomaly is estimated from the magnetic and gravity data to be a possible source pipe between thirteen and fifteen hectares in size. It has a coincident gravity and magnetic anomaly and in both cases the body is interpreted to be due to weathered facies and/or reversely magnetised body in a basalt background. It is juxtaposed to a northwest trending regional structure and has indicator minerals associated with it.

CAMEROON

Botswana Diamonds' Libongo concession is now known to be diamond-bearing. We are now assessing the logistics of this jungle location to arrive at a preliminary conclusion on the economic feasibility of developing it to the next stage of exploration.

A major issue encountered concerned the remote jungle location. During the rain season road access can be challenging. We encountered no security, environmental or community problems, and were made welcome by the authorities and local population.

Cameroon is now a full member of the Kimberley Process, with no restriction on diamond exports. Cameroon has long been known to be diamondiferous, with French colonial surveys reporting diamonds close to the eastern border, and CAR (Central African Republic) production. Artisanal mining for gold in alluvial gravels in and around existing rivers has occurred since the 1950s and has yielded numerous diamonds. During the early 1990s it was reported that artisanal miners were producing up to 4,000 carats of diamonds monthly. It was this that first alerted CNK Mining, a South Korean company, to the area's potential.

CNK's 2007 discovery was a very ancient paleo-placer conglomerate (circa 2.7 billion years old). It is similar in appearance to conglomerates discovered at Marange, Zimbabwe. However, Cameroon's conglomerate is much older, physically harder and does not appear to have been significantly "buried" over geological time. As a result, the contained diamonds have not been degraded and therefore the quality of the stones is expected to be much better, and the likely prices higher than in Zimbabwe. We do not yet know what the grade is likely to be.

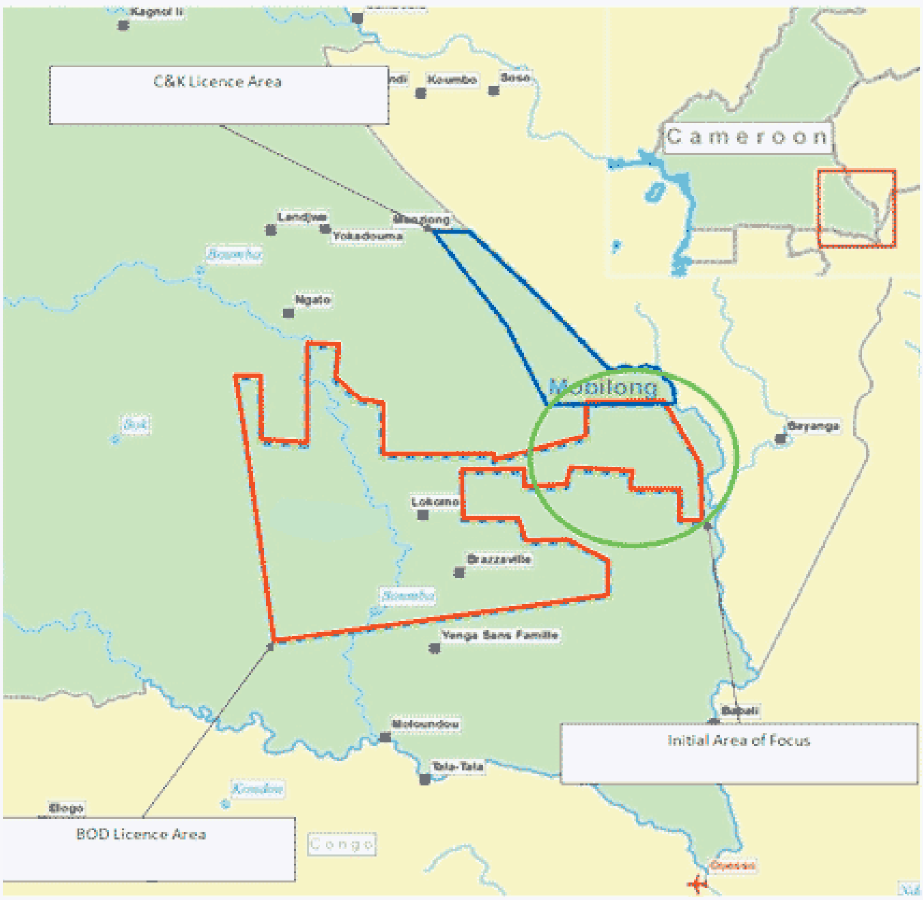


Exhibit 8: Cameroon Licence

Exhibit 9: Cameroon Bulk Sampling

While many in the industry doubted the economic feasibility of paleoplacer conglomerate, our expertise and knowledge on the ground in Zimbabwe made us open to Cameroon's potential.

Cameroon's high geological potential is enhanced by a stable political and fiscal regime. It averages growth of 4% p.a. Very stable by African standards, a pro-business environment and the absence of tribal or political conflict has resulted in large scale investment in agriculture, roads and railways.

Cameroon has a rich endowment of natural resources, with substantial petroleum and timber industries. Fiscal terms are conducive to foreign direct investment. Customs formalities are reasonable. Governance is good by regional standards. The corporate tax is 38.5%. VAT is 19.25%, while exemptions are offered for the first two years of operation.

Following confirmation of a diamond discovery, Botswana Diamonds took the adjacent ground, known as "Libongo", and now has an 85% share in an 8,087 sq km diamond Reconnaissance Licence in the eastern area of Cameroon of which 430 sq km were recently converted to an Exploration Licence, valid until 2015. The remaining 15% is held by local partners. Our licence lies immediately to the south and west of the CNK diamond discovery at Mobilong.

Our exploration team of experienced geologists and field officers established a 30 kilometre long, East-West oriented, baseline across a smaller, 430 sq km, Exploration Licence. The baseline and transects were mapped in detail and as a result a number of previously unidentified conglomerate occurrences were found. These conglomerates occur in the same geological formation as those of CNK Mining and are therefore of similar age and origin.

Botswana Diamonds began what was tentatively planned to be a 300 tonne bulk sampling of conglomerates starting in May 2012. We adopted a pragmatic approach, using a small, alluvial diamond plant to process the sample. We expected diamonds and found them in our bulk sample.

A 2 carat diamond was recovered of low value, “near gem” quality stone. The stone is of industrial quality but proves that the conglomerate is diamond-bearing.

A 0.25 carat “near gem” quality diamond was recovered from a stream flowing through the sample area. Another 1.3 carat “industrial quality” diamond, was recovered from the crushed sample. Therefore we have confirmed that our Libongo licence ground contains diamond bearing conglomerate similar to that being mined at the adjacent Mobilong mine.

We are now assessing available options to develop our Cameroon interests.

Exploration at Libongo is costly due to remoteness and as yet limited infrastructure. We wish to confirm economic feasibility before committing further funds. In order to maximise the potential we have had discussions with our neighbours. There may be cooperation between CNK’s commercial mine and Botswana Diamonds’ diamond expertise and capital markets access.

Exhibit 10: 2 Carat Diamond from Bulk Sample

Exhibit 11: 1.3 Carat Diamond from Bulk Sample

Directors' Report

The directors present their annual report and the audited financial statements of the group and company for the year ended 30 June 2012.

PRINCIPAL ACTIVITY, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The main activity of Botswana Diamonds plc and its subsidiaries and associates (the group) is diamond exploration and developments in Botswana, Cameroon and Zimbabwe. The group also holds an investment in Stellar Diamonds plc which operates in Sierra Leone and Guinea.

Further information concerning the activities of the group during the year and its future prospects is contained in the Chairman's Statement and the Review of Operations.

RESULTS AND DIVIDENDS

The consolidated loss for the year after taxation was £545,985 (period 22/09/2010 to 30/06/2011: £696,472).

The directors do not propose that a dividend be paid.

SUPPLIER PAYMENT POLICY

The group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

Trade payable days for group and company for the year were 30-40 days.

DIRECTORS

The current directors are listed on the inside back cover. André Fourie resigned as a director on 19 March 2012.

DIRECTORS AND THEIR INTERESTS IN SHARES OF THE COMPANY

The directors holding office at 30 June 2012 had the following interests in the ordinary shares of the company:

		30 June 2012		**1 July 2011**	
	Nationality	**Ordinary Shares of £0.01 each Shares Number**	**Ordinary Shares of £0.01 each Options Number**	Ordinary Shares of £0.01 each Shares Number	Ordinary Shares of £0.01 each Options Number
Dr. John Teeling	Irish	**13,669,320**	**2,500,000**	9,494,320	2,500,000
James Finn	Irish	**4,970,820**	**2,000,000**	3,295,820	2,000,000
David Horgan	Irish	**3,295,720**	**2,000,000**	3,295,720	2,000,000
Robert Bouquet	English	**-**	**250,000**	-	250,000

There were no share options exercised by the directors during the year (2011: Nil).

SUBSTANTIAL SHAREHOLDINGS

The share register records that the following shareholders, excluding directors, held 3% or more of the issued share capital of the company as at 30 June 2012 and 30 November 2012:

	30 June 2012		**30 November 2012**	
	No. of shares	**%**	**No of shares**	**%**
Rene Nominees (IOM) Limited	14,579,784	10.54%	14,379,784	10.40%
HSBC Global Custody Nominee	10,171,750	7.36%	10,171,750	7.36%
WB Nominees Limited	8,603,311	6.22%	7,910,411	5.72%
TD Waterhouse Nominees (Europe) Limited	5,327,868	3.85%	5,076,065	3.67%

RISKS AND UNCERTAINITIES

The realisation of exploration and evaluation assets is dependent on the discovery and successful development of economic reserves including the ability to raise finance to develop future projects. Should this prove unsuccessful the value included in the balance sheet would be written off to the statement of comprehensive income. Significant potential risks to the value included in the balance sheet include:

- Price fluctuations;
- foreign exchange risks;
- uncertainties over development and operational costs;
- political and legal risks, including arrangements with governments for licenses, profit sharing and taxation;
- foreign investment risks including increases in taxes, royalties and renegotiation of contracts;
- liquidity risks;
- funding risks;
- going concern; and
- operational and environmental risks.

HEALTH AND SAFETY

The company seeks to provide and maintain safe and healthy working conditions, equipment and systems for all employees as far as it is reasonably practicable and to provide such information, training and supervision as may be needed for this purpose. The company also seeks wherever possible to minimise its impact on the environment for the benefit of its staff and the public at large.

GOING CONCERN

Please refer to Note 3 for details in relation to going concern.

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance and to managing the company in an honest and ethical manner.

The Board approves the group's strategy, investment plans and regularly reviews operational and financial performance, risk management and health, safety, environment and community (HSEC) matters.

The Chairman is responsible for the leadership of the Board, whilst the Executive Directors are responsible for formulating strategy and delivery, once agreed by the Board. Regional leaders and country managers are responsible for the implementation of the group's strategy.

CHARITABLE AND POLITICAL CONTRIBUTIONS

The group made no political or charitable donations during the year.

KEY PERFORMANCE INDICATORS

The group's main key performance indicators include measuring:

- ability to raise finance on the alternative investment market; and
- quantity and quality of potential diamond reserves identified by the group.

In addition, the group reviews expenditure incurred on exploration projects and ongoing operating costs.

The Board also considers non-financial factors such as the group's compliance with Corporate Governance Standards and compliance with environmental, rehabilitation and other legislation within the group's areas of operations.

CAPITAL STRUCTURE

Details of the authorised and issued share capital, together with details of movements in the company's issued share capital during the year are shown in Note 19. The company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. With regard to the appointment and replacement of directors, the company is governed by the Articles of Association, the Companies Act, and related legislation.

EMPLOYEE CONSULTATION

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings.

CORPORATE SOCIAL RESPONSIBILITY

The Group is subject to best practice standards and extensive regulations, which govern environmental protection. The Group is committed to uphold these standards and regulations as a minimum and to keep these important matters under continuous review. When appropriate, adequate action and provision is immediately taken to ensure full compliance with the standards expected of an international exploration and development company.

The Group works towards positive and constructive relationships with government, neighbours and the public, ensuring fair treatment of those affected by the Group's operations.

FINANCIAL RISK MANAGEMENT

Details of the group's financial risk management policies are set out in Note 24.

DIRECTORS' INDEMNITIES

The company does not currently maintain directors' or officers liability insurance.

POST BALANCE SHEET EVENTS

There are no material post balance sheet events affecting the group.

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act, 2006.

A resolution to reappoint Deloitte & Touche will be proposed at the forthcoming Annual General Meeting.

By order of the Board and signed on its behalf by:

James Finn
Secretary

18 December 2012

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act, 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the members of Botswana Diamonds Plc

We have audited the financial statements of Botswana Diamonds plc for the year ended 30 June 2012 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act, 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act, 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2012 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act, 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act, 2006.

Emphasis of Matter – Realisation of Assets

Without qualifying our opinion, we draw your attention to:

- Notes 12, 13, 14 and 16 to the financial statements concerning the valuation of intangible assets, investments in subsidiaries, investments in associates and amounts due by group undertakings. The realisation of the intangible assets of £5,881,207 and investments in associates of £100,000 included in the consolidated balance sheet and intangible assets of £3,295,927, investments in associates of £100,000, investments in subsidiaries of £501,392 and amounts due by group undertakings of £2,136,932 included in the company balance sheet are dependent on the discovery and successful development of economic diamond reserves and the ability of the group to raise sufficient finance to develop the projects. The financial statements do not include any adjustments relating to these uncertainties, and the ultimate outcome cannot, at present, be determined.

Separate opinion in relation to IFRSs as issued by the IASB
As explained in note 1(ii) to the group financial statements, the group, in addition to complying with its legal obligation to IFRS as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act, 2006
In our opinion:
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act, 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kevin Sheehan (Senior Statutory Auditor)
For and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Auditors
Deloitte & Touche House
Earlsfort Terrace
Dublin 2

18 December 2012

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2012

	Notes	Year ended 30/06/2012 £	Period from 22/09/2010 to 30/06/2011 £
REVENUE		**-**	-
Cost of sales		**-**	-
GROSS PROFIT		**-**	-
Listing costs		**-**	(342,476)
Administrative expenses	4	**(418,666)**	(351,726)
OPERATING LOSS		**(418,666)**	(694,202)
Finance income	5	**1,431**	1,480
Provision for losses of associate	14	**(100,000)**	-
Loss on investment held at fair value	15	**(28,750)**	(3,750)
LOSS FOR THE YEAR/PERIOD BEFORE TAXATION		**(545,985)**	(696,472)
Income tax expense		**-**	-
LOSS AFTER TAXATION		**(545,985)**	(696,472)
Exchange difference on translation of foreign operations		**(35,324)**	(14,817)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		**(581,309)**	(711,289)
Loss per share – basic	6	**(0.48p)**	(1.32p)
Loss per share – diluted	6	**(0.48p)**	(1.32p)

Consolidated Balance Sheet

as at 30 June 2012

	Notes	30/06/2012 £	30/06/2011 £
ASSETS:			
NON CURRENT ASSETS			
Intangible assets	12	**5,881,207**	5,282,778
Investment in associate	14	**100,000**	200,000
Financial assets	15	**31,250**	60,000
		6,012,457	5,542,778
CURRENT ASSETS			
Other receivables	16	**47,856**	25,822
Cash and cash equivalents	17	**764,238**	290,577
		812,094	316,399
TOTAL ASSETS		**6,824,551**	5,859,177
LIABILITIES:			
CURRENT LIABILITIES			
Trade and other payables	18	**(515,107)**	(428,494)
TOTAL LIABILITIES		**(515,107)**	(428,494)
NET ASSETS		**6,309,444**	5,430,683
EQUITY			
Called-up share capital	19	**1,382,823**	1,005,323
Share premium	19	**7,111,556**	6,031,936
Share based payment reserves	20	**79,850**	88,000
Retained earnings – (deficit)		**(1,231,357)**	(696,472)
Translation reserve		**(50,141)**	(14,817)
Other reserve		**(983,287)**	(983,287)
TOTAL EQUITY		**6,309,444**	5,430,683

The financial statements of Botswana Diamonds plc, registered number 07384657, were approved by the Board of Directors on 18 December 2012 and signed on its behalf by:

John Teeling
Director

Company Balance Sheet

as at 30 June 2012

	Notes	30/06/2012 £	30/06/2011 £
ASSETS:			
NON CURRENT ASSETS			
Intangible assets	12	**3,295,927**	3,142,615
Investment in subsidiaries	13	**501,392**	501,392
Investment in associates	14	**100,000**	200,000
Financial assets	15	**31,250**	60,000
Receivables (due after one year)	16	**2,136,932**	1,685,456
		6,065,501	5,589,463
CURRENT ASSETS			
Other Receivables	16	**30,159**	20,273
Cash and cash equivalents	17	**712,824**	239,602
		742,983	259,875
TOTAL ASSETS		**6,808,484**	5,849,338
LIABILITIES:			
CURRENT LIABILITIES			
Trade and other payables	18	**(499,040)**	(418,655)
NET ASSETS		**6,309,444**	5,430,683
EQUITY			
Called-up share capital	19	**1,382,823**	1,005,323
Share premium	19	**7,111,556**	6,031,936
Share based payment reserves	20	**79,850**	88,000
Retained earnings – (deficit)		**(1,281,498)**	(711,289)
Other reserve		**(983,287)**	(983,287)
TOTAL EQUITY		**6,309,444**	5,430,683

The financial statements of Botswana Diamonds plc, registered number 07384657, were approved by the Board of Directors on 18 December 2012 and signed on its behalf by:

John Teeling
Director

Consolidated Statement of Changes in Equity

for the year ended 30 June 2012

	Called-up Share Capital £	Share Premium £	Share Based Payment Reserve £	Retained Deficit £	Translation Reserve £	Other Reserve £	Total £
At 22 September 2010	-	-	-	-	-	-	-
Preference shares issued	50,000	-	-	-	-	-	50,000
Preference shares redeemed	(50,000)	-	-	-	-		(50,000)
Ordinary shares issued	1,005,323	6,031,936	-	-	-	-	7,037,259
Share based payment	-	-	88,000	-	-	-	88,000
Arising on acquisition (Note 11)	-	-	-	-	-	(983,287)	(983,287)
Loss for the year and total comprehensive income	-	-	-	(696,472)	(14,817)	-	(711,289)
At 30 June 2011	**1,005,323**	**6,031,936**	**88,000**	**(696,472)**	**(14,817)**	**(983,287)**	**5,430,683**
Ordinary shares issued	377,500	1,132,500	-	-	-	-	1,510,000
Share issue expenses	-	(52,880)	-	-	-	-	(52,880)
Share based payment	-	-	2,950	-	-	-	2,950
Share options expenses	-	-	(11,100)	11,100	-	-	-
Loss for the year and total comprehensive income	-	-	-	(545,985)	(35,324)	-	(581,309)
At 30 June 2012	**1,382,823**	**7,111,556**	**79,850**	**(1,231,357)**	**(50,141)**	**(983,287)**	**6,309,444**

Share Premium
The Share Premium comprises the excess over par value.

Share Based Payment Reserve
The share based payment reserve arises on the grant of share options under the share option plan.

Retained Deficit
Retained deficit comprises of losses incurred in the current year and prior period.

Other Reserve
During 2010 the company acquired certain assets and liabilities from African Diamonds plc, a company under common control. In accordance with accounting standards the assets and liabilities acquired were recognised at their book value and no goodwill was recognised on acquisition. The difference between the book value of the assets acquired and the purchase consideration was recognised directly in reserves.

Translation Reserve
The translation reserve arises from the translation of intercompany loans, denominated in foreign currency.

Company Statement of Changes in Equity

for the year ended 30 June 2012

	Called-up Share Capital £	Share Premium £	Share Based Payment Reserve £	Retained Deficit £	Other Reserve £	Total £
At 22 September 2010	-	-	-	-	-	-
Preference shares issued	50,000	-	-	-	-	50,000
Preference shares redeemed	(50,000)	-	-	-	-	(50,000)
Ordinary shares issued	1,005,323	6,031,936	-	-	-	7,037,259
Share based payment	-	-	88,000	-	-	88,000
Arising on acquisition (Note 11)	-	-	-	-	(983,287)	(983,287)
Loss for the year and total comprehensive income	-	-	-	(711,289)	-	(711,289)
At 30 June 2011	1,005,323	6,031,936	88,000	(711,289)	(983,287)	5,430,683
Ordinary shares issued	**377,500**	**1,132,500**	**-**	**-**	**-**	**1,510,000**
Share issue expenses	**-**	**(52,880)**	**-**	**-**	**-**	**(52,880)**
Share based payment	**-**	**-**	**2,950**	**-**	**-**	**2,950**
Share options expenses	**-**	**-**	**(11,100)**	**11,100**	**-**	**-**
Loss for the year and total comprehensive income	**-**	**-**	**-**	**(581,309)**	**-**	**(581,309)**
At 30 June 2012	**1,382,823**	**7,111,556**	**79,850**	**(1,281,498)**	**(983,287)**	**6,309,444**

Share Premium
The Share Premium comprises of a premium arising on the issue of shares.

Share Based Payment Reserve
The share based payment reserve arises on the grant of share options under the share option plan.

Retained Deficit
Retained deficit comprises of losses incurred in the current year and prior period.

Other Reserve
During 2010 the company acquired certain assets and liabilities from African Diamonds plc, a company under common control. In accordance with accounting standards the assets and liabilities acquired were recognised at their book value and no goodwill was recognised on acquisition. The difference between the book value of the assets acquired and the purchase consideration was recognised directly in reserves.

Consolidated Cash Flow Statement

for the year ended 30 June 2012

	Notes	Year ended 30/06/2012 £	Period from 22/09/2010 to 30/06/2011 £
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year/period		**(545,985)**	(696,472)
Finance Revenue		**(1,431)**	(1,480)
Loss on investment held at fair value		**28,750**	3,750
Share Based Payments		**-**	74,925
Foreign exchange (losses)/gains		**(28,768)**	29,697
Provision for losses in associate		**100,000**	-
		(447,434)	(589,580)
MOVEMENTS IN WORKING CAPITAL			
Increase in trade and other payables		**86,613**	156,309
Decrease in trade and other receivables		**(22,034)**	151,630
CASH USED IN OPERATIONS		**(382,855)**	(281,641)
Finance Income		**1,431**	1,480
NET CASH USED IN OPERATING ACTIVITIES		**(381,424)**	(280,161)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Intangible Assets		**(595,479)**	(802,500)
Cash Acquired on Acquisition (Note 11)		**-**	1,417,752
NET CASH GENERATED IN INVESTING ACTIVITIES		**(595,479)**	615,252
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issue		**1,510,000**	-
Share issue costs		**(52,880)**	-
NET CASH GENERATED FROM FINANCING ACTIVITIES		**1,457,120**	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		**480,217**	335,091
Cash and cash equivalents at beginning of the financial year/period		**290,577**	-
Effect of foreign exchange rate changes		**(6,556)**	(44,514)
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR/PERIOD	17	**764,238**	290,577

Company Cash Flow Statement

for the year ended 30 June 2012

	Notes	**Year ended 30/06/2012 £**	Period from 22/09/2010 to 30/06/2011 £
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year/period		**(545,985)**	(696,472)
Finance Revenue		**(1,431)**	(1,480)
Loss on investment held at fair value		**28,750**	3,750
Exchange movements		**6,556**	44,514
Share Based Payments		**-**	74,925
Provision for intercompany receivable		**(35,324)**	(14,817)
Provision for losses in associate		**100,000**	-
MOVEMENTS IN WORKING CAPITAL		**(447,434)**	(589,580)
Increase in trade and other payables		**80,385**	183,655
Increase in trade and other receivables		**(461,362)**	(572,627)
CASH GENERATED BY OPERATIONS		**(828,411)**	(978,552)
Finance Income		**1,431**	1,480
NET CASH GENERATED IN OPERATING ACTIVITIES		**(826,980)**	(977,072)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Intangible Assets		**(150,362)**	(78,286)
Payments for Investment in subsidiary		**-**	(1,375)
Cash Acquired on Acquisition (Note 11)		**-**	1,340,849
NET CASH GENERATED IN INVESTING ACTIVITIES		**(150,362)**	1,261,188
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issue		**1,510,000**	-
Share issue costs		**(52,880)**	-
NET CASH GENERATED FROM FINANCING ACTIVITIES		**1,457,120**	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		**479,778**	284,116
Cash and cash equivalents at beginning of the financial year/period		**239,602**	-
Effect of foreign exchange rate changes		**(6,556)**	(44,514)
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR/PERIOD	17	**712,824**	239,602

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the group and company are summarised below:

(i) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. The consolidated financial statements are presented in sterling pounds.

(ii) Statement of compliance

The financial statements of Botswana Diamonds plc and all its subsidiaries (the group) have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union.

(iii) Basis of consolidation

The consolidated financial statements comprise the financial statements of Botswana Diamonds plc and its subsidiaries as at 30 June 2012. Subsidiaries are fully consolidated from the date of acquisition, being the date which the group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intragroup balances, income and expenses and unrealized gains and losses resulting from intragroup transactions are eliminated in full.

(iv) Investment in subsidiaries

The company's investments in subsidiaries are stated at cost, less any accumulated impairment losses.

(v) Investments in associates

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the group's interest in that associate (which includes any long-term interests that, in substance, form part of the group's net investment in the associate), are recognised only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the group, profits and losses are eliminated to the extent of the group's interest in the relevant associate.

(vi) Operating loss

Operating loss represents revenue less cost of sales, administrative expenses and listing expenses. It is stated before finance revenue, finance costs and fair value gains/losses on financial assets.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(vii) Foreign currencies

The presentation currency of the group financial statements is pounds sterling and the functional currency and the presentation currency of the parent company is pounds sterling. The individual financial statements of each group company are maintained in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, the presentation currency.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was re-determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the Statement of Comprehensive Income for the year, other than when a monetary item forms part of a net investment in a foreign operation; then exchange differences on that item are recognised in equity. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the Statement of Comprehensive Income for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

(viii) Intangible fixed assets

Exploration and evaluation assets

Exploration expenditure relates to the initial search for deposits with economic potential in Botswana, Zimbabwe and Cameroon. Evaluation expenditure arises from a detailed assessment of deposits that have been identified as having economic potential.

The costs of exploration rights and costs incurred in exploration and evaluation activities, are capitalised as part of exploration and evaluation assets.

Exploration costs are capitalised until technical feasibility and commercial viability of extraction of reserves are demonstrable. Exploration costs include an allocation of administration and salary costs (including share based payments) as determined by management.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

Prior to reclassification to property, plant and equipment, exploration and evaluation assets are assessed for impairment, and any impairment loss recognised immediately in the statement of comprehensive income.

Impairment of intangible assets

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. The company reviews and tests for impairment on an ongoing basis and specifically if the following occurs:

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(viii) Intangible fixed assets (continued)

a) the period for which the group has a right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
b) substantive expenditure on further exploration for and evaluation of diamond resources in the specific area is neither budgeted nor planned;
c) exploration for an evaluation of diamond resources in the specific area have not led to the discovery of commercially viable quantities of diamond resources and the group has decided to discontinue such activities in the specific area; and
d) sufficient data exists to indicate that although a development in the specific area is likely to proceed the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

(ix) Financial Instruments

Financial instruments are recognised in the group and company's balance sheet when the group becomes a party to the contractual provisions of the instrument.

Financial assets

Where the fair value of a financial asset can be reliably measured the financial asset is initially recognised at fair value through the profit and loss account. At each balance sheet date gains or losses arising from a change in fair value are recognised in the Statement of Comprehensive Income, as other gains or losses.

Financial assets for which the fair value cannot be reliably measured are carried at cost.

Cash

Cash comprises cash held by the group and short-term bank deposits with an original maturity of three months or less.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into, mainly trade payables and accruals.

Receivables

Receivables are measured at initial recognition at invoice value, which approximates to fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated income statement when there is objective evidence that the carrying value of the asset exceeds the recoverable amount.

Receivables are classified as loans and receivables which are subsequently measured at amortised cost, using the effective interest method.

Trade payables and accruals

Trade payables are classified as financial liabilities, are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

(x) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The current tax payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(x) Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences arising on investments in subsidiaries and associates, only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

(xi) Share based payments

The group issues equity-settled share based payments only to certain employees and directors. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period based on the group's estimate of shares that will eventually vest and adjusted for the effect of market based vesting conditions.

Where the value of the goods or services received in exchange for the share based payment cannot be reliably estimated the fair value is measured by use of a Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

(xii) Accounting for business combinations of entities under common control

Assets and liabilities acquired in a business combination under common control are recognised at value carried by the predecessor owner under IFRS. No goodwill is recognised on the acquisition. Internally generated intangible assets and other items carried at zero by the predecessor remain unrecognised following acquisition. Expenses arising on the common control transaction are charged as administrative expenses as incurred in the Statement of Comprehensive Income. The difference between the share of net assets acquired and the purchase consideration is recognised directly in equity.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(xiii) Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the group's accounting policies

In the process of applying the group's accounting policies above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Exploration and evaluation expenditure

The assessment of whether general administration costs and salary costs are capitalised or expensed involves judgement. Management considers the nature of each cost incurred and whether it is deemed appropriate to capitalise it within intangible assets. Costs which can be demonstrated as project related are included within exploration and evaluation assets. Exploration and evaluation assets relate to prospecting, exploration and related expenditure in Botswana, Zimbabwe and Cameroon. The group's exploration activities are subject to a number of significant and potential risks including:

- price fluctuations;
- foreign exchange risks;
- uncertainties over development and operational costs;
- political and legal risks, including arrangements with governments for licenses, profit sharing and taxation;
- foreign investment risks including increases in taxes, royalties and renegotiation of contracts;
- liquidity risks;
- funding risks;
- going concern; and
- operational and environmental risks.

The recoverability of these intangible assets is dependent on the discovery and successful development of economic reserves, including the ability to raise finance to develop future projects. Should this prove unsuccessful, the value included in the balance sheet would be written off to the Statement of Comprehensive Income.

Impairment of intangible assets

The assessment of intangible assets for any indications of impairment (1.(viii)) involves judgement. If an indication of impairment exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds recoverable amount. Recoverable amount is determined as the higher of fair value less costs to sell and value in use.

The assessment requires judgement as to: the likely future commerciality of the asset and when such commerciality should be determined; future revenues; capital and operating costs, and the discount rate to be applied to such revenues and costs.

Deferred tax assets

The assessment of availability of future taxable profits involves judgement. A deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised. No deferred tax has been recognised.

Going Concern

The assessment of the group's ability to execute its strategy by funding future working capital requirements involves judgement. Further information regarding going concern is outlined in Note 3.

Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(xiii) Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of intangible assets
The assessment of intangible assets for any indication of impairment involves uncertainty. There is uncertainty as to whether the exploration activity will yield any economically viable discovery. Aspects of uncertainty surrounding the group's intangible assets include the amount of potential reserves, ability to be awarded exploration licences, and the ability to raise sufficient finance, to develop the group's projects. If the directors determine that the intangible asset is impaired, an allowance is recognised in the Statement of Comprehensive Income.

Share-based payments
The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The group has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options. The model used by the group is the Black-Scholes valuation model.

2. STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET ADOPTED

At the date of authorisation of this financial information, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IAS 1	(Amendment) Presentation of Items of Other Comprehensive Income (effective for accounting periods beginning on or after 1 July 2012);
IAS 19	(Revised) Employee Benefits (effective for accounting periods beginning on or after 1 January 2013);
IFRS 13	Fair Value Measurement (effective for accounting periods beginning on or after 1 January 2013);
IFRS 12	Disclosure of Interests in Other Entities (effective for accounting periods beginning on or after 1 January 2013);
IFRS 11	Joint Arrangements (effective for accounting periods beginning on or after 1 January 2013)
IFRS 10	Consolidated Financial Statements (effective for accounting periods beginning on or after 1 January 2013);
IAS 28	(Revised) Investments in Associates and Joint Ventures (effective for accounting periods beginning on or after 1 January 2013);
IAS 27	(Revised) Separate Financial Statements (effective for accounting periods beginning on or after 1 January 2013);
IAS 12	(Amendment) Deferred Tax: Recovery of Underlying Assets (effective for accounting periods beginning on or after 1 January 2012);
IFRS 9	Financial Instruments (effective for accounting periods beginning on or after 1 January 2015);
IFRIC 20	Stripping costs in the production phase of a surface mine (effective for accounting periods beginning on or after 1 January 2013).

The directors are currently assessing the impact in relation to the adoption of these standards and interpretation for future periods of the company; however, at this point they do not believe they will have a significant impact on the financial information of the company in the period of initial application.

3. GOING CONCERN

The group incurred a loss for the year of £581,309 after exchange differences on retranslation of foreign operations (period 22/09/2010 to 30/06/2011: £711,289) and had a retained deficit of £1,231,357 (2011: £696,472) at the balance sheet date.

The group had a cash balance of £764,238 (2011: £290,577) and net assets of £6,309,444 (2011: £5,430,683) at the balance sheet date. The directors have prepared budgets/forecasts for a period of not less than twelve months from the date of approval of the financial statements, which indicate that the company has the ability to meet its liabilities as they fall due.

Accordingly, the directors are satisfied that it is appropriate to continue to prepare the financial statements of the Group and Company on the going concern basis as there will be sufficient funds in place to continue operations for the foreseeable future. The financial statements do not include any adjustment to the carrying amount, or classification of assets and liabilities, if the Group or Company was unable to continue as a going concern.

4. LOSS BEFORE TAXATION

	Year ended 30/06/2012 £	Period from 22/09/2010 to 30/06/2011 £
The loss before taxation is stated after charging:		
Auditor's remuneration	**19,000**	19,000
The analysis of auditor's remuneration is as follows:		
Fees payable to the group's auditors for the Audit of the group's annual accounts	17,000	17,000
Fees payable to the group's auditors and their associates for other services to the group	2,000	2,000
Total audit fees	19,000	19,000
Administrative expenses comprise:		
Professional fees	**113,017**	25,569
Foreign exchange losses	**6,556**	44,514
Directors' remuneration (Note 7)	**165,403**	152,150
Wages and salaries	**39,710**	25,785
Other administrative expenses	**93,980**	103,708
	418,666	351,726

5. FINANCE INCOME

	Year ended 30/06/2012 £	Period from 22/09/2010 to 30/06/2011 £
Interest earned	**1,431**	1,480

6. LOSS PER SHARE

Basic loss per share is computed by dividing the loss after taxation for the year available to ordinary shareholders by the weighted average number of ordinary shares in issue and ranking for dividend during the year. Diluted earnings per share is computed by dividing the profit or loss after taxation for the year by the weighted average number of ordinary shares in issue, adjusted for the effect of all dilutive potential ordinary shares that were outstanding during the year.

The following table sets forth the computation for basic and diluted earnings per share (EPS):

	30/06/2012	30/06/2011
	£	£
Numerator		
For basic and diluted EPS retained loss	**(545,985)**	(696,472)
Denominator	**No.**	No.
For basic and diluted EPS	**114,494,596**	52,882,727
Basic EPS	**(0.48p)**	(1.32p)
Diluted EPS	**(0.48p)**	(1.32p)

The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of shares for the purposes of the diluted earnings per share:

	No.	No.
Share options	**7,750,000**	8,000,000

7. RELATED PARTY AND OTHER TRANSACTIONS

Group and Company
Key Management Compensation and Directors' Remuneration

The remuneration of the directors, who are considered to be the key management personnel, is set out below.

Segment information about the Group and company's activities is presented below.

	Salary or fees	**Share based payments**	**Year ended 30/06/2012 Total**	Period from 22/09/2010 to 30/06/2011 Total
	£	**£**	**£**	£
John Teeling	**100,000**	**-**	**100,000**	77,750
James Finn	**40,000**	**-**	**40,000**	42,200
André Fourie	**-**	**-**	**-**	11,100
David Horgan	**20,000**	**-**	**20,000**	32,200
Robert Bouquet	**55,403**	**-**	**55,403**	1,975
	215,403	**-**	**215,403**	165,225

All remunerations related to short term employee benefits.

The number of directors to whom retirement benefits are accruing is Nil. Unpaid directors' remuneration is included within trade and other payables.

7. RELATED PARTY AND OTHER TRANSACTIONS (continued)

Included in the above is £50,000 (2011: €13,075) of salary payments which were capitalised within exploration assets.

During the year, an amount of £41,428 in respect of geologist fees and expenses was paid to André Fourie Consultancy, a company under the control of André Fourie, director until 19 March 2012.

Other
The company shares offices and overheads with a number of other companies also based at 162 Clontarf Road. These companies have some common directors.

Transactions with these companies during the year are set out below:

	Clontarf Energy plc £	Connemara Mining Company plc £	Hydro-carbon Exploration plc £	Petrel Resources plc £	Greenore Gold plc £	Cooley Distillery plc* £	Total £
Demerged from African Diamonds plc	29,853	7,300	9,449	11,553	-	730	58,885
Office and overhead costs recharged	11,111	394	-	7,112	1,838	(15,000)	5,455
Repayments	(48,103)	(7,694)	(9,449)	(21,762)	-	-	(87,008)
At 30 June 2011	(7,139)	-	-	(3,097)	1,838	(14,270)	(22,668)
Office and overhead costs recharged	**34,930**	**21,078**	**-**	**25,825**	**-**	**-**	**81,833**
Repayments	**(8,986)**	**(21,078)**	**-**	**(22,728)**	**-**	**(730)**	**(53,522)**
Transfer to trade payables	**-**	**-**	**-**	**-**	**-**	**15,000**	**15,000**
At 30 June 2012	**18,805**	**-**	**-**	**-**	**1,838**	**-**	**20,643**

* Cooley Distillery plc ceased to have common directors on 17 January 2012.

Company

At 30 June 2012 the following amounts were due to the company by its subsidiaries:

	30/06/2012 £	30/06/2011 £
Kukama Diamonds (Cameroon) Limited	**317,842**	**147,004**
Kukama Mining & Exploration (Pty) Ltd	**1,106,845**	**930,931**
Atlas Minerals (Pty) Ltd	**712,245**	**607,521**
	2,136,932	**1,685,456**

All movements during the year are due to monies advanced to fund exploration activities. An allowance of £35,324(2011: £14,817) has been provided in respect of the amount due from Kukama Mining & Exploration (Pty) Ltd.

Recoverability of amounts due from subsidiaries is dependent on the discovery and successful development of economic diamond reserves

8. EMPLOYEE INFORMATION

The average number of persons employed by the group and company including directors during the year was:

	Year ended 30/06/2012 Number	Period from 22/09/2010 to 30/06/2011 Number
Management and administration	**7**	7

Staff costs for the above persons were:	**£**	£
Wages and salaries	**272,935**	105,785
Share based payments	**-**	88,000
Pension costs	**-**	-
	272,935	193,785

Included in the above is £67,822 of salary payments which were capitalised within exploration assets.

9. INCOME TAX EXPENSE

	Year ended 30/06/2012 £	Period from 22/09/2010 to 30/06/2011 £
Current tax:		
Tax on loss	**-**	-
	-	-
Factors affecting the tax expense:		
Loss on ordinary activities before tax	**(545,985)**	(696,472)
UK tax calculated at 24% (2011: 28%)	**(131,036)**	(195,012)
Effects of:		
Unutilised Losses	**131,036**	195,012
Tax charge	**-**	-

No charge to corporation tax arises in the year due to losses incurred.

At the balance sheet date the group had unused tax losses of £668,860 (22/09/2010 to 30/06/2011: £275,321) which equates to an unrecognised deferred tax asset of £160,526 (22/09/2010 to 30/06/2011: £77,090).

No deferred tax asset has been recognised due to the unpredictability of future profit streams.

10. SEGMENTAL ANALYSIS

Operating segments are identified on the basis of internal reports about the group that are regularly reviewed by the chief operating decision maker. The Board is deemed the chief operating decision maker and the group is organised into three segments: Botswana, Zimbabwe and Cameroon.

£ £ £ £

10A. Segment revenue and segment result

Group	Segment Revenue 2012 £	Segment Result 2012 £	Segment Revenue 2011 £	Segment Result 2011 £
Botswana	-	-	-	-
Zimbabwe	-	-	-	-
Cameroon	-	-	-	-
Total continuing operations	-	-	-	-
Unallocated head office	-	(545,985)	-	(696,472)
	-	(545,985)	-	(696,472)

10B Segment assets and liabilities

Group	Assets 2012 £	Liabilities 2012 £	Assets 2011 £	Liabilities 2011 £
Botswana	5,462,184	17,566	5,063,940	101,853
Zimbabwe	162,519	-	124,521	-
Cameroon	325,615	-	150,841	15,703
Total continuing operations	5,950,318	17,566	5,339,302	117,556
Unallocated head office	874,233	497,541	519,875	310,938
	6,824,551	515,107	5,859,177	428,494

Company	Assets 2012 £	Liabilities 2012 £	Assets 2011 £	Liabilities 2011 £
Botswana	5,446,117	1,499	5,056,033	92,014
Zimbabwe	162,519	-	124,521	-
Cameroon	325,615	-	148,909	15,703
Total continuing operations	5,934,251	1,499	5,329,463	107,717
Unallocated head office	874,233	497,541	519,875	310,938
	6,808,484	499,040	5,849,338	418,655

10. SEGMENTAL ANALYSIS

10C. Other segmental information

Additions to non current assets	**Group 2012 £**	Group 2011 £	**Company 2012 £**	Company 2011 £
Botswana	**371,814**	654,536	**110,003**	62,743
Zimbabwe	**37,998**	28,012	**37,998**	28,012
Cameroon	**188,617**	133,027	**5,311**	606
Total continuing operations	**598,429**	815,575	**153,312**	91,361
Unallocated head office	**-**	-	**-**	-
	598,429	815,575	**153,312**	91,361

11. BUSINESS COMBINATION UNDER COMMON CONTROL

On 20 December 2010, the company completed a business combination under common control of all mining interests and other assets and liabilities of African Diamonds plc ("AFD") and its subsidiaries, Atlas Minerals (Botswana) (Pty) Ltd ("Atlas Minerals") and Kukama Mining & Exploration (Pty) Ltd ("Kukama Exploration"), except for African Diamond's interests in the AK6 diamond resource in Botswana. The cost of the acquisition was satisfied by the issue of shares in Botswana Diamonds plc to the African Diamonds plc shareholders on a one-for-one basis in respect of each share acquired. The fair value of the shares issued was £7,037,259.

As the assets and liabilities acquired were under common control they were recognised at book value on acquisition. No goodwill was recognised and the excess of the purchase consideration over the book values of the assets and liabilities was transferred to reserves.

Analysis of assets and liabilities acquired at the date of acquisition:

	£
Investment in Kukama Exploration	
Exploration and evaluation assets	1,272,783
Cash and cash equivalents	75,690
Amounts owing to group companies	(924,070)
Trade and other receivables	83,447
Trade and other payables	(7,850)
Total	**500,000**
Investment in Atlas Minerals	
Exploration and evaluation assets	143,166
Cash and cash equivalents	1,213
Amounts owing to group companies	(121,499)
Trade and other receivables	6,472
Trade and other payables	(29,335)
Total	**17**

11. BUSINESS COMBINATION UNDER COMMON CONTROL (continued)

Other assets and liabilities of African Diamonds plc	**£**
Exploration and evaluation assets	3,051,254
Investment in associates	200,000
Financial assets	63,750
Cash and cash equivalents	1,340,849
Trade and other receivables	87,533
Trade and other payables	(235,000)
Amounts owed by group companies	1,045,569
Total	**5,553,955**
Total assets and liabilities acquired	**6,053,972**

Summary of assets and liabilities acquired by the group	
Exploration and evaluation assets	4,467,203
Cash and cash equivalents	1,417,752
Trade and other receivables	177,452
Trade and other payables	(272,185)
Investment in associates	200,000
Financial assets	63,750
	6,053,972
Non-cash consideration for acquisition	(7,037,259)
Excess of consideration transferred to other reserves	**983,287**

12. INTANGIBLE ASSETS

Exploration and evaluation assets:

	2012 Group £	2011 Group £	**2012 Company £**	2011 Company £
Cost:				
Opening balance	**5,282,778**	-	**3,142,615**	-
Assets acquired (Note 11)	**-**	4,467,203	**-**	3,051,254
Additions	**598,429**	815,575	**153,312**	91,361
At 30 June	**5,881,207**	5,282,778	**3,295,927**	3,142,615

Segmental analysis	**2012 Group £**	2011 Group £	**2012 Company £**	2011 Company £
Botswana	**5,395,188**	5,023,374	**3,125,635**	3,015,632
Zimbabwe	**162,519**	124,521	**162,519**	124,521
Cameroon	**323,500**	134,883	**7,773**	2,462
	5,881,207	5,282,778	**3,295,927**	3,142,615

12. INTANGIBLE ASSETS (continued)

Exploration and evaluation assets relate to expenditure incurred in exploration for diamonds in Botswana, Zimbabwe and Cameroon. The directors are aware that by its nature there is an inherent uncertainty in exploration and evaluation assets and therefore inherent uncertainty in relation to the carrying value of capitalized exploration and evaluation assets.

The directors believe that there were no facts or circumstances indicating that the carrying value of intangible assets may exceed their recoverable amount and thus no impairment review was deemed necessary by the directors. The realisation of these intangible assets is dependent on the successful discovery and development of economic diamond resources and the ability of the group to raise sufficient finance to develop the projects. It is subject to a number of significant potential risks, as set out in Note 1 (xiii).

Included in additions for the year are £2,950 of share based payments (2011: £13,075), £17,822 of wages and salaries and £50,000 (2011: £Nil) of directors remuneration.

13. INVESTMENT IN SUBSIDIARIES

	30/06/2012 £	30/06/2011 £
At 1 July 2011	**501,392**	-
Assets acquired (Note 11)	**-**	500,017
Additions	**-**	1,375
At 30 June 2012	**501,392**	501,392

In the opinion of the directors, at 30 June 2012, the fair value of the investments in subsidiaries is not less than their carrying amounts.

During the period to 30 June 2011 Botswana Diamonds plc acquired 85% of the ordinary share capital of Kukama Diamonds Cameroon Limited SARL.

On 20 December 2010, the company acquired the demerged subsidiaries of African Diamonds plc as per the demerger agreement. Further details are set out in Note 11.

The subsidiaries of the company at 30 June 2012 were:

Name of subsidiary	**Total allotted capital**	**Country of incorporation and operation**	**% Ownership**	**Principal activity**
Kukama Mining and Exploration (Proprietary) Limited	2 Ordinary shares of BWP1 each	Botswana	100%	Prospecting and exploration for diamonds
Kukama Diamonds Investments Limited	50,000 shares of US$1,000 each	British Virgin Islands	100%	Holding company
Orapa Diamonds plc	5,000,000 shares of £0.01 each	United Kingdom	100%	Dormant
Kukama Diamonds Cameroon Limited SARL	100 shares of FCA 10,000 each	Cameroon	85%	Prospecting and exploration for diamonds
Botswana Coal plc	5,000,000 shares of £0.01 each	United Kingdom	100%	Dormant
Congo Diamonds plc	5,000,000 shares of £0.01 each	United Kingdom	100%	Dormant
Atlas Minerals (Botswana) (Pty) Limited	200 shares of BWP1 each	Botswana	100%	Prospecting and exploration for diamonds

13. INVESTMENT IN SUBSIDIARIES (continued)

The carrying value of investments in subsidiaries is dependent on the successful discovery and development of economic diamond reserves and the ability of the group to raise sufficient finance to develop the projects. It is subject to a number of significant potential risks as set out in Note 1 (xiii).

14. INVESTMENTS IN ASSOCIATE

	2012	2011
	£	£
Group and company		
Cost:		
At the beginning of the period	**200,000**	-
Assets acquired (Note 11)	**-**	200,000
Provision for losses incurred by associate	**(100,000)**	-
At the end of the period	**100,000**	200,000

On 20 December 2010, as per the demerger agreement, the company acquired 35.42% of the issued share capital of Bugeco S.A.. Bugeco S.A. is incorporated in Belgium.

The value of the investment of £100,000 in Bugeco is dependent on it discovering and developing economic reserves and on its ability to raise finance to develop future projects. Should this prove unsuccessful the value included in the balance sheet will be written off to the Statement of Comprehensive Income. Having reviewed the carrying value the directors are satisfied that the value of Bugeco is not less than carrying amount.

15. FINANCIAL ASSETS

	2012	2011
	£	£
Group and company		
Financial assets carried at fair value through profit or loss (FVTPL):		
Non-derivative financial assets designated as at FVTPL	**31,250**	60,000
Investment at FVTPL		
At 1 July 2011	**60,000**	-
Asset Acquired (Note 11)	**-**	63,750
Fair value movement	**(28,750)**	(3,750)
At 30 June 2012	**31,250**	60,000

African Diamonds plc held 1,000,000 shares in Stellar Diamonds plc (formerly West African Diamonds plc). On 22 December 2010 this investment was transferred to Botswana Diamonds as per the terms of the demerger agreement. At the year end this investment represented 0.35% of the issued share capital of Stellar Diamonds plc. Stellar Diamonds plc is listed on the London AIM market. In the opinion of the directors, the company does not have significant influence over Stellar Diamonds plc.

Fair value at 30 June 2012 is based on the market value of the shares of Stellar Diamonds plc at that date. Investment in Stellar Diamonds plc (formerly West African Diamonds plc) is classified in Level 1 hierachy.

16. OTHER RECEIVABLES

	2012 Group £	2011 Group £	2012 Company £	2011 Company £
Other receivables	**47,856**	25,822	**30,159**	20,273
Due by group undertakings (Note 7)	**-**	-	**2,136,932**	1,685,456
	47,856	25,822	**2,167,091**	1,705,729

The carrying value of the other receivables approximates to their fair value. The carrying value of amounts due by group undertakings is dependent on the successful discovery and development of economic diamond resources and the ability of the group to raise sufficient finance to develop the projects. It is subject to a number of significant potential risks as detailed in Note 1 (xiii).

17. CASH AND CASH EQUIVALENTS

	2012 Group £	2011 Group £	2012 Company £	2011 Company £
Cash and cash equivalents	**764,238**	290,577	**712,824**	239,602

Cash at bank earns interest at floating rates based on daily bank deposits rates.

18. TRADE AND OTHER PAYABLES

	2012 Group £	2011 Group £	2012 Company £	2011 Company £
Trade payables	**25,856**	206,764	**19,040**	200,177
Accruals	**489,251**	221,730	**480,000**	218,478
	515,107	428,494	**499,040**	418,655

It is the company's normal practice to agree terms of transactions, including payment terms, with suppliers and provided suppliers perform in accordance with the agreed terms, payment is made accordingly. In the absence of agreed terms it is the company's policy that payment is made between 30 – 40 days. The carrying value of trade and other payables approximates to their fair value.

19. CALLED-UP SHARE CAPITAL

Allotted, called-up and fully paid:

	Number	Share Capital £	Share Premium £
At incorporation	2	-	-
Issued during the period	100,532,265	1,005,323	6,031,936
At 1 July 2011	100,532,267	1,005,323	6,031,936
Issued during the year	**37,750,000**	**377,500**	**1,132,500**
Share issue expenses	**-**	**-**	**(52,880)**
At 30 June 2012	**138,282,267**	**1,382,823**	**7,111,556**

Movements in issued share capital
On 16 February 2012, 37,750,000 new ordinary shares were issued at a price of 4p per share to provide additional working capital and fund development costs.

20. SHARE-BASED PAYMENTS

The group issues equity-settled share-based payments to certain directors and individuals who have performed services for the group. Equity-settled share-based payments are measured at fair value at the date of grant.

Fair value is measured by use of a Black-Scholes valuation model.

The group plan provides for a grant price equal to the average quoted market price of the ordinary shares on the date of grant.

	30/06/2012 Options	**2012 Weighted average exercise price in pence**	30/06/2011 Options	2011 Weighted average exercise price in pence
Outstanding at beginning of year	8,000,000	6.94	-	-
Issued	750,000	4.00	8,000,000	6.94
Expired	(1,000,000)	6.94	-	-
Outstanding at end of the year	**7,750,000**	**6.65**	**8,000,000**	**6.94**
Exercisable at end of the year	**7,250,000**	**6.65**	**8,000,000**	**6.94**

The options outstanding at 30 June 2012 had a weighted average exercise price of 6.65p, and a weighted average remaining contractual life of 5.82 years.

During the year ended 30 June 2012, 750,000 options were granted with a fair value of £8,850. These fair values were calculated using the Black-Scholes valuation model. These options will vest over a 3 year period contingent on the provision of services over the vesting period and will be capitalised on a straight line basis over the vesting period.

20. SHARE-BASED PAYMENTS (continued)

The inputs into the Black-Scholes valuation model were as follows:

Grant 13 March 2012

Weighted average share price at date of grant (in pence)	4p
Weighted average exercise price (in pence)	4p
Expected volatility	27.4%
Expected life	7 years
Risk free rate	0.5%
Expected dividends	none

Expected volatility was determined by management based on their cumulative experience of the movement in share prices over the year.

The terms of the options granted do not contain any market conditions within the meaning of IFRS 2.

The group capitalised expenses of £2,950 (2011: £13,075) and expensed costs of £Nil (2011: £74,925) relating to equity-settled share-based payments transactions during the year.

21. MATERIAL NON-CASH TRANSACTIONS

Material non-cash transactions during the year have been outlined in Notes 11 and 20.

22. CAPITAL COMMITMENTS

There is no capital expenditure authorised or contracted for which is not provided for in these accounts.

23. PARENT COMPANY INCOME STATEMENT

As permitted by Section 408 of the Companies Act, 2006, the parent company's income statement has not been presented in this document. The loss after taxation, as determined in accordance with IFRS, for the parent company for the year is £581,309 (period 22/09/2010 to 30/06/2011: loss of £711,289).

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Group and company

The group's financial instruments comprise of cash and cash equivalent balances, investments at fair value and various items such as trade receivables and trade payables which arise directly from trading operations.

The group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The group holds cash as a liquid resource to fund obligations of the group. The group's cash balances are held in euro, US dollar and sterling. The group's strategy for managing cash is to maximise interest income whilst ensuring its availability to match the profile of the group's expenditure. This is achieved by regular monitoring of interest rates and monthly review of expenditure.

The group has a policy of not hedging due to no significant dealings in currencies other than the reporting currency and euro denominated transactions and therefore takes market rates in respect of foreign exchange risk; however, it does review its currency exposure on an ad hoc basis.

The group does not enter into any derivative transactions, and it is the group's policy that no trading in derivatives shall be undertaken.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The main financial risks arising from the group's financial instruments are as follows:

Interest rate risk
The group has no outstanding bank borrowings at the year end. New projects and acquisitions are financed by a combination of existing cash surpluses and through funds raised from equity share issues. The group may use project finance in the future to finance exploration and development costs on existing licences.

Liquidity risk
As regards liquidity, the Group's policy is to ensure continuity of funding primarily through fresh issues of shares. Short-term funding is achieved through utilising and optimising the management of working capital. The directors are confident that adequate cash resources exist to finance operations in the short term, including exploration and development.

Capital management
The capital structure of the company consists primarily of equity raised through issue of share capital, which it has invested in operations in Botswana, Cameroon and Zimbabwe.

The primary objective of the company's capital management is to maximise shareholder value. The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

Credit Risk
The maximum credit exposure of the group as at 30 June 2012 amounted to £812,094 (2011: £316,399) relating to the group's cash and cash equivalents and receivables. The directors believe there is limited exposure to credit risk as the group's cash and cash equivalents are held with major financial institutions. The aging of receivables is reviewed on a regular basis to ensure the timely collection of amounts owing to the group.

The group manages its credit risk in cash and cash equivalents by holding surplus funds in high credit worthy financial institutions and maintains minimum balances with financial institutions in remote locations.

	30/06/2012 **£**	30/06/2011 £
Financial institutions with S&P A- rating or higher	**764,238**	290,577

25. POST BALANCE SHEET EVENTS

There are no material post balance sheet events affecting the group.

Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of Botswana Diamonds plc (the "Company") will be held on Thursday 24 January 2013 at 1.00 p.m. at the Hilton London Paddington Hotel, 146 Praed Street, London W2 1EE for the following purposes:

Ordinary Business

1. To receive and consider the Directors' Report, Audited Accounts and Auditor's Report for the year ended 30 June, 2012.

2. To elect Director: David Horgan retires in accordance with the Articles of Association and seeks re-election.

3. To re-elect Deloitte & Touche as auditors and to authorise the Directors to fix their remuneration.

4. To transact any other ordinary business of an annual general meeting.

By order of the Board:

James Finn
Secretary

Registered Office: 20-22 Bedford Row, London WCIR4JS

18 December 2012

Note:
1. A member of the company who is unable to attend and vote at the above Annual General Meeting is entitled to appoint a proxy to attend, speak and vote in his stead. A proxy need not be a member of the Company.

2. To be effective, the Form of Proxy duly signed, together with the power of attorney (if any) under which it is signed, must be deposited at the Company's Registrars, Computershare Investor Services (Ireland) Ltd., Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, not less than forty-eight hours before the time appointed for the Meeting or any adjournment thereof at which the person named in the Form of Proxy is to vote.

Directors' and other information

DIRECTORS	Dr. John Teeling James Finn David Horgan Robert Bouquet
SECRETARY	James Finn
REGISTERED OFFICE	20-22 Bedford Row London, WCIR 4JS United Kingdom
BUSINESS ADDRESS	162 Clontarf Road Dublin 3 Ireland
REGISTERED AUDITORS	Deloitte & Touche Deloitte & Touche House Earlsfort Terrace Dublin 2 Ireland
COMPANY REGISTRATION NUMBER	07384657
SOLICITORS	McEvoy Partners 27 Hatch Street Lower Dublin 2 Ireland
REGISTRARS	Computershare Services (Ireland) Limited Heron House Corrig Road Sandyford Industrial Estate Dublin 18 Ireland
BANKERS	AIB Ashford House Tara Street Dublin 2 Ireland

Directors: John Teeling - *Executive Chairman*, Jim Finn - *Finance Director*, David Horgan - *Director*, Robert Bouquet - *Director*
162 Clontarf Road, Dublin 3, Ireland. t: +353 1 833 2833 f: +353 1 833 3505 e: info@botswanadiamonds.co.uk www.botswanadiamonds.co.uk
A company incorporated and registered in England & Wales under the Companies Act 2006 with registered number 07384657